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No. 85-863

IN THE

Supreme Court of the United States

OCTOBER TERM, 1985

LUBRIZOL ENTERPRISES, INC.,
Petitioner,

v.

ROBERT A. CANFIELD, BANKRUPTCY TRUSTEE
FOR RICHMOND METAL FINISHERS, INC.,
Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Fourth Circuit

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BRIEF AMICI CURIAE ELECTRONIC INDUSTRIES ASSOCIATION NATIONAL ELECTRICAL MANUFACTURERS ASSOCIATION IN SUPPORT OF PETITIONERS

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INTEREST OF AMICI CURIAE

With more than 1000 participating companies, the Electronic Industries Association (EIA) is the full-service national trade organization representing the spectrum of United States companies manufacturing electronic products. With more than 500 participating companies, the National Electrical Manufacturers Association (NEMA) represents the electrical manufacturing industry, including generation, transmission, distribution, control and end-uses of electricity. The industries repre-

sented by these associations have a total employee population of over 1.8 million and shipped more than $172 billion of product in 1984. According to the National Science Foundation, the electrical and electronic industries (Standard Industrial Code 36) spent $8.5 billion on research and development in 1983, the latest year for which figures are available.

Engaged in technology-intensive industries, our member companies are heavily dependent on technology licensing—as a source of revenue and as a means to obtain needed rights and know-how to manufacture competitive products. The Fourth Circuit's decision severely undercuts technology licensing and, thus, we respectfully file this brief in support of petitioner's request for Supreme Court review of that decision.

STATEMENT OF THE CASE

Petitioner Lubrizol Enterprises, Inc. (LEI), and Richmond Metal Finishers, Inc. (RMF), entered into a Technology License Agreement dated July 8, 1982, (the "Agreement"). Pursuant to the Agreement, RMF disclosed to LEI certain technical information then owned by RMF. The Agreement gave LEI the nonexclusive right to use, make, have made and sell products using and embodying the technology. In return, LEI agreed to maintain the confidentiality of the technology for a 17-year period and to pay royalties to RMF during the 17-year period.

In July 1983, RMF filed a Petition for Relief under Chapter 11 of the Bankruptcy Reform Act of 1978 (the "Code"). At this time, LEI had not, as yet, used the technology to make its first commercial sale. RMF then moved for authorization from the Bankruptcy Court to reject the license agreement under Section 365(a) of the Code, 11 U.S.C. 365(a). At the hearing on the Motion, RMF's President testified that RMF sought re-

jection of the agreement in order to grant an exclusive license of the technology to a third party. No other reason was given to support the Motion. Over LEI's objection, RMF's Motion was granted.

LEI appealed to the District Court, for the Eastern District of Virginia (District Court), which found that RMF's stated reason for rejecting the agreement was based on a misperception of the law. The District Court found that RMF could not use Section 365 to deprive LEI of technology that had been disclosed and transferred prior to RMF's bankruptcy filing. RMF then appealed this decision to the United States Court of Appeals for the Fourth Circuit.

Although taking note of the chilling effect its decision might have upon the willingness of such parties to contract, the Court of Appeals reversed the District Court. A petition for rehearing was denied by the Court below.

ARGUMENT

American industry has flourished upon the cross fertilization of innovation which occurs via the licensing and cross-licensing of technology.

A company will normally acquire a technology license —whether of trade secrets or of patent rights—to supplement its present knowledge and rights in order to manufacture and sell a product successfully. A company's willingness to acquire a license must rest upon satisfactory assurance that the transfer of such knowledge, rights, or both, cannot later be abrogated. The reason for this is that the licensee normally makes significant additional investments in development, capital equipment and personnel to manufacture and market the end product. These subsequent investments often dwarf the licensee's initial investment in the license.

If allowed to stand, the Court of Appeals' decision will put at risk a licensee company's entire investment, making it dependent on the continued business viability of the licensor. The larger the size of the licensee's total investment in the products and the greater the commercial success of such products, the greater the likelihood that in the event of the licensor's bankruptcy, Section 365 of the Code may be used to rescind the license in order that the bankrupt estate may negotiate a better deal.

Potential licensees will hesitate to acquire rights in the face of such uncertainty. They will be most hesitant to acquire a license from the companies to whom licensing revenue might be pivotal—fledgling risk capital companies without large-scale financial backing. For these reasons they will be hesitant to enter into cross-license arguments with such companies. Such companies often are at the leading edge of technological change, but they typically lack superior credit ratings. They are often thinly capitalized and lack sufficient immediate cash flow—a primary cause of bankruptcy.

The issues in this case go far beyond the immediate rights and interests of the parties. Technology licensing is central to the health and growth of industry. Permitted to stand, the decision of the court below will significantly decrease the commercial utilization of new technology to the detriment of American industry and the American public.

CONCLUSION

We respectfully request the Court to grant certiorari in this case and to hold that once technology has been disclosed and rights thereto transferred to a licensee, neither general principles of contract and property law nor the Bankruptcy Code permit its recapture.

Respectfully submitted,

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